Burkina Faso: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 17, 2010

The following item is a Letter of Intent of the government of Burkina Faso, which describes the policies that Burkina Faso intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Burkina Faso, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
LETTER OF INTENT

Ouagadougou, November 17, 2010

Dominique Strauss-Kahn
Managing Director,
International Monetary Fund
700 19th Street NW
WASHINGTON, DC 20431 (USA)

Dear Mr. Strauss-Kahn:

1. The government of Burkina Faso is committed to implementing sound policies and reforms to address the country’s development challenges. Thus, during the first half of 2010, we continued our efforts to consolidate macroeconomic stability and fight poverty, through our economic and financial program supported by the Extended Credit Facility (ECF).

2. The government is convinced that continued implementation of policies and reforms under the program will enable it to support fiscal and debt sustainability, and enhance growth prospects. In the first half of 2010, key objectives under the program were achieved. In particular, all structural measures programmed for end-June and end-September were taken; and significant progress was made toward meeting end-year targets. On quantitative objectives, our continued efforts to increase efficiency in tax administration helped collect more revenue than expected at end-June, and to reduce the rate of large taxpayer nonfiler below the program target. Moreover, the government continued to maintain a prudent borrowing policy and did not accumulate any arrears. However, the indicative target on pro-poor spending was somewhat lower than programmed because of difficulties with procurement procedures. Moreover, the performance criterion (PC) on the overall deficit (commitment basis, including grants) was not met, because an important portion of grants programmed for end-June was disbursed in August.

3. The government’s medium-term macroeconomic objectives communicated in my letter dated May 31, 2010 remain appropriate. Macroeconomic stability and fiscal consolidation will continue to be our priorities. We, therefore, plan to maintain our efforts on revenue mobilization and expedite public financial management reforms. We continue to believe that progress on structural reform implementation is essential to enhancing growth prospects and reducing poverty. We will continue the rehabilitation of the cotton sector, which is very important for our economy and provides income to a large portion of the population. We intend to accelerate reforms in the financial sector, and to improve the business environment further to support private sector development. We also plan to deepen civil service reforms to enhance our wage policy.
4. The government is convinced that economic and financial policies presented in the attached Memorandum of Economic and Financial Policies (MEFP) will help achieve the objectives set under our ECF–supported program. Nonetheless, we are prepared to take any additional measures that may become necessary. The government will consult with the IMF before adopting such measures, and prior to any revision to policies outlined in the MEFP, in accordance with the Fund’s policies on such consultation. In addition, we will provide the IMF with information on policy and reform implementation, as agreed on under the attached Technical Memorandum of Understanding, or upon request.

5. The government is aware that the observance of performance criteria set in the program for end-June is a condition for the completion of the first review under the ECF-supported program. As explained above, all PCs were observed, except for the one on the overall budget deficit that was missed at end-June because of a sizeable, albeit temporary shortfall in budget grants, and for which we are requesting a waiver. In addition, the end-December PC is expected to be met because budget execution will remain prudent, revenue mobilization efforts will continue, and grants are expected to be higher than anticipated.

6. In view of the overall program performance through end-June, and commitments taken in the attached MEFP, the government requests that the second disbursement under the ECF arrangement, totaling SDR 6.45 million, be made available upon the completion of the first ECF review by the IMF Executive Board.

7. The government will take necessary measures to ensure that conditions are met for the completion of the second program review by June 14, 2011.

8. The government authorizes the IMF to publish this letter of Intent and its attachments, as well as the staff report, upon the completion of the first review.

Sincerely yours,

/s/
Lucien Marie Noël BEMBAMBA
Minister of Economy and Finance
Officier de l’Ordre National

Attachments: Memorandum of Economic and Financial Policies, 2011
Technical Memorandum of Understanding
MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES FOR 2010–11

I. INTRODUCTION

1. Burkina Faso’s economic and financial program, supported by the IMF under the ECF aims to consolidate macroeconomic stability, enhance growth prospects, and intensify the fight against poverty. This memorandum is a supplement to the one attached to the Letter of Intent dated May 31, 2010. It reviews program implementation through end-June 2010 and outlines economic policies that the government intends to put in place in 2010–11 to reach its medium-term objectives.

II. ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE THROUGH END-JUNE 2010

A. Recent Economic Developments and Prospects for End-2010

2. Economic activity picked up during the first half of the year, and inflation remained moderate. Growth projections have been revised upward by about 1 percentage point to 5.2 percent, mostly because of strong activity in the agriculture and mining sectors and the recovery in cotton-related activities. In agriculture, cereal production is expected to expand by 4.4 percent due to favorable climatic conditions and the impact of measures taken by the government in recent years to support productivity in the sector, notably with improved seeds. In mining, gold production is set to increase by 50 percent with the beginning of operations of the fifth mine (ESSAKANE). Finally, thanks to better climatic conditions, cotton production is projected to increase by 24 percent, recovering from a 17 percent decline in 2009. Inflation dropped substantially during the first half of 2010, mostly reflecting an increase in local cereal production. It should remain moderate and well below the 3 percent regional convergence criterion.

3. Flood affected the country in July 2010. Unlike the September 2009 flood that mainly affected the capital city, Ouagadougou, the July flood caused casualties and damage in several rural parts of the country, affecting more than 100,000 people. The emergency assistance totaled some CFAF 4 billion and the cost of damage to infrastructure is being assessed.

4. In the fiscal area, revenue collection improved further and capital expenditure was lower than expected. Increased accountability and better monitoring of revenue-collecting units further strengthened tax administration, contributing to higher revenue. Budget execution was somewhat exceptional during the first half of the year as CFAF 67.7 billion (1.6 percent of GDP) of outlays from the 2009 budget were committed and paid in January–April 2010. These outlays were related to programs designed in 2009 to mitigate the impact of exogenous shocks, notably the global economic downturn and the September flood. However, despite the late closing of the 2009 fiscal year, all expenses, including those committed in 2010, were duly recorded in the 2009 budget execution law transmitted to the Audit Court. Capital and pro-poor spending were lower than expected,
mostly because of inefficiencies in procurement procedures. The budget mid-term review process led to a number of recommendations, the most important of which were the elimination of prior notification for budget allocations delegated to decentralized institutions and the preparation of 2011 investment projects in the last quarter of 2010. These measures are expected to improve the investment execution rate.

5. **Based on the outcome at end-June, and continued efforts in the second half of the year, revenue is projected to increase to 15.6 percent of GDP**, compared with 13.9 percent in the program and 13.5 percent in 2009. This increase reflects efficiency gains made since 2009 and higher than anticipated receipts from renewal of mobile phone licenses. Within the framework of the supplementary budget for 2010, the government plans to use these exceptional receipts to finance new investment projects. Thus, it plans to accelerate capital outlays in the second part of the year, to CFAF 280.3 billion, compared with CFAF 252.6 billion in the program. Because of this increase, and the execution of the expenditure from 2009, total expenditure and net lending are projected to reach about 27 percent of GDP in 2010, compared with a programmed level of 25 percent. Nevertheless, the budget deficit (commitment basis, including transfers) is forecasted to remain in line with the program, at 4.8 percent of GDP, thanks to the projected higher revenue and budget support.

6. **Burkina Faso’s external position is expected to benefit from the projected improvement in the terms of trade compared with the program.** The projected increase in exports and improvement in the terms of trade should more than compensate for the expected rise in imports related to higher global oil prices, increased agriculture and mining production, and rehabilitation of infrastructure damaged by the 2009 and 2010 floods. Therefore, the current account deficit (including official transfers) is expected to narrow to 5.2 percent of GDP in 2010, compared with 8.7 percent initially projected.

7. **Developments in the financial sector were consistent with the economic recovery that marked the first half of the year.** Money supply increased and credit to the economy strengthened. For the year, money supply is expected to grow by about 17 percent, in line with the substantial increase in net foreign assets.

### B. Performance under the Program

8. **The government achieved most objectives under its program:** (i) the floor of total revenue of CFAF 300.1 billion was exceeded by approximately 4 percent, with a collection level of CFAF 310.9 billion. Moreover, owing to better monitoring, the large taxpayer nonfiler rate was 4 percent, compared with a program target of 5 percent for end-June. However, priority social spending was slightly below target, and the performance criterion on the budget deficit (commitment basis, including grants) was not met because of delays in the disbursement of budget support expected at end-June. The government maintained a prudent borrowing policy: it did not contract or guarantee nonconcessional loans nor accumulate any arrears (Table 1). The government took all structural reform measures programmed for June (Table 2). In particular, the first quarterly report on poverty-reducing expenditure was prepared, and the legal documents (the new investment law and the decree on the VAT...
refund modalities) for the implementation of the tax reform strategy adopted by Parliament in January 2010 were adopted by the Cabinet.

9. **Progress in the implementation of other public financial management reforms included the following:**

- The customs offices of Thio and Ouessa were connected to the customs main server. For the Bingo office, the special telephone landline was installed, and data transfer is underway.

- Measures to prepare for the implementation of the program budgeting system were adopted. They included (i) preparing a guide for sectoral policy design, which was adopted by the Cabinet on September 15, 2010; (ii) setting up special monitoring units in line ministries and institutions; (iii) putting in place a consultative group for program budgeting; (iv) hiring a consultant to prepare the program budgeting implementation strategy; and (v) stepping up the dissemination of information on the new system for line ministries and other stakeholders.

- A new classification of expenditure-supporting documentation was approved. This will help reduce payment delays by streamlining documentation required for expenditure payments.

- A new treasury cash flow plan was finalized in September.

- The General Inspection of the Budget (IGB) in collaboration with the General Inspection of Finances (IGF) carried out an organizational audit of the financial departments in 28 line ministries and institutions. Recommendations of the audit allowed the authorities to define accountability and performance assessment criteria for this important stage of the public expenditure process.

10. **Although the implementation of the financial sector strategy was delayed, the decree setting up the monitoring committee was signed in May 2010.** The dissemination workshop and a donors’ round table will be organized before the end of the year. Delays in the installation of institutional monitoring mechanisms and difficulties in mobilizing financing necessary to implement the strategy prevented the implementation of most measures planned for 2010. Regarding the rehabilitation of banks, the board of directors of Banque Commerciale du Burkina (BCB) decided to increase its capital by CFAF 18 billion. To date, shareholders released CFAF 6.5 billion, with planned release of the remainder by end-December 2010, for the bank to comply with regional regulations. With regard to Banque de l’Habitat du Burkina Faso (BHBF), discussions are underway with the International Finance Corporation (IFC) for its participation in BHBF’s capital.

11. **Prospects have improved in the cotton sector after many challenging years.** Most difficulties were due to climatic shocks, the decline in global cotton prices, and the weak rate
of transformation of cotton fiber. With the recent improvement in the global environment, and in view of the sector’s key role for the economy and poverty reduction efforts, the government intends to continue the restructuring of SOFITEX and to improve the financial sustainability of the sector, in collaboration with other stakeholders. In this context, SOFITEX’s capital was increased by CFAF 16.4 billion in 2010. The company has recruited a consulting firm to carry out the revaluation of its fixed assets and finalize the recapitalization in accordance with regional regulations. Moreover, it pursued cost-cutting measures and other reforms as follows:

- It updated staffing plans, effective July 2010, based on recommendations from the 2009 audit; and created two new departments that will operate under international standards: the internal audit, the management oversight departments;
- It prepared a procedure manual to strengthen management practices;
- It set up a new information system that will become effective with the 2010-11 crop year; and
- It prepared a business plan.

12. **The government continued its poverty reduction efforts.** Its goal under the Poverty Reduction Strategy is to reduce poverty from 43.2 percent of the population at end-2009 to less than 35 percent by 2015. To make progress on this goal, it has focused on the following sectors: (i) primary education and health services coverage; (ii) food security; and (iii) employment generation. Poverty-reduction programs have also focused on vulnerable groups directly. In particular, the government recently expanded its school lunch program, and distributed food and building materials to floods victims.

### III. Economic and Financial Policies for 2011

#### A. Macroeconomic Framework

13. **The government intends to maintain its reform efforts.** It plans to implement the necessary measures to maintain macroeconomic stability, enhance growth prospects, and reduce poverty. In 2011, the government intends to finalize and implement its Strategy for Faster Growth and Sustainable Development (SCADD), for which preparation is well advanced.

14. **Economic growth is projected at 5.5 percent in 2011, and inflation is expected to remain moderate.** The stronger growth will be driven primarily by continued good performance in agriculture, cotton, mining, and services. In particular, cotton production is expected to grow by 10 percent, thanks to the timely payment to producers planned for the current crop season, the clearance of internal arrears between producers, and the 14 percent increase in producer prices for the 2010/11 cotton season. Gold production is projected to
grow by about 40 percent, stimulated by high global prices and reflecting higher production from Burkina Faso’s largest gold mine (ESSAKANE). The services sector is expected to benefit from the expansion of activities in the secondary sector, as well as higher demand for services from scheduled official events, in particular the celebration of the 50th anniversary of Burkina Faso’s independence. The Government is taking steps to improve public investment execution rate, especially for the rehabilitation of infrastructure damaged by floods in 2009 and 2010. This is also expected to support growth. With the projected increase in agriculture production, inflation is expected to remain moderate, and well below the 3 percent regional convergence criterion.

B. Fiscal Policy

15. The government intends to maintain its efforts for fiscal consolidation. In 2011, fiscal policy will support economic recovery and address the impact of the 2009–10 floods, while preserving medium-term fiscal and debt sustainability. Therefore, priority will be given to revenue-enhancing measures and public financial management. Within a prudent fiscal framework, resources allocation will focus on (i) enhancing support to agriculture and livestock; (ii) rehabilitating economic infrastructure; (iii) consolidating poverty-reducing measures; and (iv) promoting employment.

16. The Government plans to enhance revenue collection further. Total revenue is projected at CFAF 721.4 billion, equivalent to 15.7 percent of GDP in 2011. Revenue performance will benefit from:

- New tax policy measures: (i) the effective implementation of the tax reform adopted in early 2010, which will increase corporate tax receipts; (ii) the increase in the excise tax rate on alcoholic beverages (other than beer) from 25 to 30 percent in the 2011 budget; and (iii) the gradual implementation of a new taxation system raising royalties from 3 percent of turnover to 5 percent, based on global prices. The impact of this measure will be strengthened by the projected increase in gold exports.

- Higher nontax revenue on mobile phone operating licenses, which includes revenue from a fourth license and collection of remaining balances on license renewals in 2010. Administrative measures include: (i) continued monitoring of revenue performance by collecting units; (ii) set-up, in October 2010, of the Medium-Sized Enterprise unit for a better a coverage of this category of taxpayers; (iii) improved collection of tax arrears; (iv) strengthened controls and information dissemination on tax obligations; (v) set-up of two merchandise scanners at the customs office of Ouagadougou (road) and the customs office at the train station in Bobo Dioulasso by end-December 2011 (Structural Benchmark); and (vi) Strengthened joint (Customs and Tax Departments) control brigades.
Expenditure is projected at CFAF 1,161.1 billion, equivalent to 25.2 percent of GDP. Current expenditure is expected to be at 12.4 percent of GDP, while pro-poor spending will increase by about 10 percent to reach 6.5 percent of GDP. Thanks to the implementation of the merit-based promotion system, the wage bill should be contained at 5.8 percent of GDP, while allowing recruitment in priority sectors. Capital expenditure is projected at 12.5 percent of GDP, with an important share allocated to the rehabilitation of infrastructure.

Thanks to the planned revenue efforts, the budget deficit is projected to narrow to 3.9 percent of GDP in 2011. Expected financing include budgetary assistance from bilateral and multilateral development partners, the programmed third and fourth IMF disbursements under the ECF, and borrowing from the WAEMU regional bond market. In case of a shortfall in revenue collection or budget support, the government will reduce non-priority expenditure to avoid any accumulation of payment arrears.

C. Balance of Payments and External Debt

The external position is forecast to worsen somewhat in 2011. The current account deficit (including the official transfers) is projected at 6.3 percent of GDP compared with 5.2 percent of GDP in 2010, mainly because of the projected decline in official transfers, and the anticipated deterioration in the terms of trade, which largely compensate the effect of the increase in cotton and gold export volumes. Taking into account other net flows in the balance of payments, the overall balance is expected to record a moderate surplus (CFAF 17.4 billion).

The government intends to maintain a prudent borrowing policy. The last Debt Sustainability Analysis (DSA) carried out by IMF and World Bank Staff in May 2010 showed that the risk of debt distress is high for Burkina Faso. Indeed, the present value of debt-to-export ratio, one of the main DSA indicators, could exceed its threshold by 2017. This indicator shows that, in spite of the increase in gold exports in the last three years, the export base remains narrow. Consequently, the government is committed to continuing a prudent borrowing policy to preserve debt sustainability. Hence, it will not contract nor guarantee nonconcessional loans as defined in the Technical Memorandum of Understanding attached to this memorandum.

The improvement of debt management capacity will continue. In this context, the authorities plan to request World Bank’s assistance to update the results of the Debt Management Performance Assessment carried out in 2008. In addition, the procedure manual on external debt management, finalized in September 2010, will become operational. With support from Burkina Faso’s financial and technical partners, other measures for 2011 include:

- An increase in computerization of the debt management department;
• Capacity building activities;
• Improvement in the quality of the debt database, including setting up a back-up site in Bobo Dioulasso; and
• The setting-up of an integrated electronic system to manage external financing.

D. Structural Reforms

22. The government plans to intensify public financial management reforms in 2011. Priority areas will be expenditure execution procedures and the follow-up of the treasury cash flow plan. In this context, and in order to avoid delays in closing the fiscal year, the authorities will take the necessary measures to ensure strict compliance with the budget execution regulatory framework, namely, to close expenditure commitment and issuance of payment orders in November and December respectively, and to end payments with the supplementary period at end-February of the following year. Moreover, the IGF will carry out, by end-June 2011 (Structural Benchmark), the audit of the financial services (Direction des Affaires Administratives et Financières) in line ministries to identify and address bottlenecks in expenditure commitments, particularly for capital expenditure. The authorities plan to accelerate preparatory work for the adoption of a new budget classification system that is consistent with WAEMU regulations by end-December 2011.

23. Regarding petroleum products, a new pricing and taxation system will be implemented by end-June 2011 (Structural Benchmark), building on recommendations from studies that the authorities plan to complete by end-December 2010.

24. The authorities plan to take advantage of improved prospects in the cotton sector to accelerate reforms. The focus will remain on SOFITEX’s rehabilitation and on the preparation of financing mechanisms for the cotton price-smoothing fund and for the inputs fund. Regarding SOFITEX, the recapitalization that took place in 2010, combined with the expected increase in export earnings, should contribute to reinforcing its financial situation and reducing the need for further financial support from the government. It will also allow the signing of an agreement between SOFITEX and the Treasury for the repayment of SOFITEX’s obligations to commercial banks, which were paid by the treasury since 2009. In addition, the following measures are planned for 2010–11:

• Strengthening of SOFITEX’s management through the following actions: (i) make the audit and management oversight departments operational; (ii) set up a research and development department; (iii) finalize the procedure manual; (iv) prepare a risk management chart; (v) finalize the business plan discussed by the company’s Executive Board in June 2010.
• Reallocation of cotton production zones to strengthen the financial sustainability of ginning companies, in collaboration with the World Bank and other stakeholders.

• Completion of studies on the financing of the cotton price-smoothing fund and the inputs fund. Building on recommendations from the studies, the authorities will prepare an action plan with key measures for 2011–12.

25. **Civil service reforms intend to strengthen the wage policy and the quality of public service.** The implementation of the merit-based promotion system will continue, and recruitments will be concentrated in the priority sectors. Moreover, a physical census of civil servants will be carried out by end-December 2011 (*Structural Benchmark*), and its results will be used to update the payroll and the civil service roster. Furthermore, electronic identification cards for all civil servants will be issued to monitor the size of the civil service.

26. **The implementation of the financial sector strategy will be consistent with the action plan adopted by the government in 2010.** In 2011–12, the authorities plan to:

• Reduce the Government’s stake in the BHBF;

• Implement the WAEMU action plan on the promotion of financial intermediation;

• Conduct an operational and financial audit of the unit in charge of monitoring the insurance sector and implement the audit’s recommendations;

• Disseminate and implement new legal provisions for decentralized financial institutions (SFD);

• Prepare quarterly financial indicators for SFD;

• Implement the national strategy for microfinance;

• Prepare a strategy for privatization of the postal financial services; and

• Assess contribution arrears to the social security fund (CNSS).

27. **To support private sector development, the government intends to continue actions aimed at improving the business climate.** In this context, it plans to make the commercial courts of Ouagadougou and Bobo Dioulasso operational in 2011. In addition, it will set up, by end-2011, an electronic one-stop window for foreign trade, using the ORBUS system (*Structural Benchmark*) to expedite customs clearance transactions.

28. **Complete implementation of conformity measures for the Extractive Industry Transparency Initiative (EITI) principles is expected before the cut-off date of May 2011.** Actions planned for end-2010 include setting up an Internet site for reports and
data from the mining sector and completing training for EITI committee members. The first report, on mining activities in 2008–09, is expected by end-2010.

E. Improving Statistics

29. **Reinforcement of the quality and availability of economic and social data will continue**, building on recommendations from technical assistance missions from the IMF and other technical and financial partners of Burkina Faso. Priority areas are still public financial management, revenue enhancement, debt management, monitoring of the microfinance sector, as well as national accounts and prices.

F. Program Monitoring

30. **The authorities intend to monitor closely the implementation of their economic and financial programs.** To make the program successful, they intend to take the necessary steps to reach the quantitative and structural targets agreed upon with IMF Staff and presented in Tables 1 and 2 of this memorandum. In monitoring program implementation, the authorities plan to follow the Technical Memorandum of Understanding (attached to this memorandum), which defines quantitative performance criteria and requirements for data communication to IMF staff. Throughout the program, the Burkinabè government will not introduce restrictions on payments and transfers under current international transactions or tighten any such restrictions without prior consultation with the IMF; introduce or modify multiple currency practices; conclude bilateral payment agreements incompatible with the provisions of Article VIII of the IMF Articles of Agreement; or introduce restrictions on imports for balance of payments purposes. The second review of the program supported by the ECF is expected to be completed by June 14, 2011, the third review by December 15, 2011, and the fourth review by June 14, 2012.

31. **The government requests a waiver for nonobservance of the performance criterion on the budget deficit at end-June 2010.** As explained in this memorandum, the government did not meet the end-June performance criterion (PC) because of delays in disbursement of budgetary aid, leading to a shortfall of CFAF 81 billion in budgetary resources at end-June. Taking into account the CFAF 25 billion of adjustment under the program, the breach of the PC was limited to 0.9 percent of GDP. We expect to meet the end-December fiscal target, because budget aid is anticipated to be higher than programmed, and budget execution will remain prudent.
### Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2009–11

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

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<tr>
<th>Performance criteria and benchmarks</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Ceiling on the overall fiscal deficit including grants (^1)</td>
<td>222.7</td>
<td>143.6</td>
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<tr>
<td>Ceiling on the amount of new nonconcessional external debt contracted or guaranteed by the government (^2, 3)</td>
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<td>Poverty-reducing social expenditures</td>
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<td><strong>Maximum upward adjustment of deficit ceiling including grants due to:</strong></td>
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<tr>
<td>Shortfall in grants relative to program projections</td>
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<td>Excess in concessional loan financing relative to program projections</td>
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<td><strong>Adjustment factors</strong></td>
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<td>Basic primary balance (cash basis)</td>
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<td>Concessional loans</td>
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(continued)
Table 1. Burkina Faso: Quantitative Performance Criteria and Indicative Targets, 2009–11 (concluded)

(CFAF billions, cumulative from beginning of year; unless otherwise indicated)

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<td>Excess in concessional loan financing relative to program projections</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Memorandum items:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Basic primary balance (cash basis)</td>
<td>-24.9</td>
<td>-56.9</td>
<td>-97.5</td>
<td>-122.4</td>
</tr>
<tr>
<td>Grants</td>
<td>19.7</td>
<td>70.0</td>
<td>160.7</td>
<td>260.4</td>
</tr>
<tr>
<td>Concessional loans</td>
<td>41.2</td>
<td>41.2</td>
<td>82.3</td>
<td>164.6</td>
</tr>
</tbody>
</table>

Sources: Burkinabè authorities; and IMF staff estimates and projections.

¹ The ceiling on the overall fiscal deficit is to be adjusted in line with the TMU definition. It is calculated on a commitment basis.
² To be observed continuously.
³ Excluding Treasury bills and bonds issued in CFA francs on the regional West African Economic and Monetary Union (WAEMU)
⁴ Applies to average over respective quarter.
⁵ Indicative target.
⁶ Performance criteria.
Table 2. Burkina Faso: Structural Conditionality

<table>
<thead>
<tr>
<th>Measures</th>
<th>Due date</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adopt legal documents that implement the new fiscal reform strategy approved by parliament in January 2010.</td>
<td>end-June</td>
<td>Done</td>
</tr>
<tr>
<td>Produce a quarterly report on poverty-reducing expenditure, on a continuous basis, using the new tracking system adopted in October 2009, starting in June 2010.</td>
<td>end-June</td>
<td>Done</td>
</tr>
<tr>
<td>Prepare a new Treasury Cash Flow plan Table</td>
<td>end-Sept.</td>
<td>Done</td>
</tr>
<tr>
<td>Finalize the procedure manual on external debt management</td>
<td>end-Sept.</td>
<td>Done</td>
</tr>
<tr>
<td>Finalize the social audit of the public service</td>
<td>end-Sept.</td>
<td>Done</td>
</tr>
<tr>
<td>Set up an internal audit system at SOFITEX</td>
<td>end-Sept.</td>
<td>Done</td>
</tr>
</tbody>
</table>

(continued)
### Public Financial Management

<table>
<thead>
<tr>
<th>Measures</th>
<th>Date</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronically connect two additional customs posts to the main Customs system.</td>
<td>end-Dec. 2010 (second review)</td>
<td>Strengthen revenue collection.</td>
</tr>
<tr>
<td>Prepare a study on the taxation of petroleum products and on a new pricing system.</td>
<td>end-Dec. 2010 (second review)</td>
<td>Reduce subsidies on petroleum products.</td>
</tr>
<tr>
<td>Prepare an audit of expenditure commitment systems in line ministries.</td>
<td>end-June 2011 (third review)</td>
<td>Enhance expenditure Management.</td>
</tr>
<tr>
<td>Implement a new pricing and taxation system for petroleum products.</td>
<td>end-June 2011 (third review)</td>
<td>Reduce subsidies.</td>
</tr>
<tr>
<td>Set up a one-stop window for customs clearance.</td>
<td>end-Dec. 2011 (fourth review)</td>
<td>Improve the business environment.</td>
</tr>
<tr>
<td>Set up an electronic system to improve merchandise valuation in two customs posts.</td>
<td>end-Dec. 2011 (fourth review)</td>
<td>Strengthen revenue collection.</td>
</tr>
</tbody>
</table>

### Civil Service

<table>
<thead>
<tr>
<th>Measures</th>
<th>Date</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implement the merit-based promotion system.</td>
<td>end-Dec. 2010 (second review)</td>
<td>Improve wage policy and efficiency in the civil service.</td>
</tr>
<tr>
<td>Complete the civil service census and harmonize the payroll system and the civil service roster.</td>
<td>end-Dec. 2011 (fourth review)</td>
<td>Improve the wage policy.</td>
</tr>
</tbody>
</table>

### Financial Sector

<table>
<thead>
<tr>
<th>Measures</th>
<th>Date</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finalize the restructuring of the <em>Banque du Commerce du Burkina</em>.</td>
<td>end-Dec. 2010 (second review)</td>
<td>Increase access to financial services.</td>
</tr>
<tr>
<td>Adopt and implement the strategy for microfinance development.</td>
<td>end-June 2011 (third review)</td>
<td>Increase access to financial services.</td>
</tr>
</tbody>
</table>

### Cotton Sector

<table>
<thead>
<tr>
<th>Measures</th>
<th>Date</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop a business plan.</td>
<td>end-December 2010 (second review)</td>
<td>Strengthen the financial health of SOFITEX.</td>
</tr>
</tbody>
</table>
TECHNICAL MEMORANDUM OF UNDERSTANDING

Ouagadougou, November 17, 2010

1. This technical memorandum of understanding (TMU) defines the quantitative performance criteria and indicative targets, as well as structural benchmarks to assess performance under the program supported by the Extended Credit Facility (ECF). It also sets deadlines for data reporting.

I. DEFINITIONS

Unless otherwise indicated, “government” means the central administration of Burkina Faso and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned entity with autonomous legal personality not included in the government flow-of-funds table (TOFE).

2. The definitions of “debt” and “concessional borrowing” in this memorandum of understanding are as set out in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009:

(a) Debt means a direct, i.e., not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones are:

(i) Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets equal to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) Suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;
(iii) Leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time usually shorter than the total expected service life of the property, while the lessor retains title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property; and

(iv) Treasury bills and bonds issued in CFA francs on the West African Economic and Monetary Union (WAEMU) regional market, which are included in domestic debt for the purpose of this memorandum.

Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

- (b) A loan is considered concessional if, on the date on which the contract was signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., the grant element of the loan is more than 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRR)s established by the Organization for Economic Cooperation and Development (OECD). Specifically, the 10-year average of CIRR s reported by the OECD will be used for loans with maturities longer than 15 years while the six-month average of CIRR s will be used for loans with shorter maturities. To both the 10-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1 percent for repayment periods of 15–19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

- (c) "Domestic debt" is defined as debt denominated in CFA francs, while "foreign debt" is defined as debt denominated in any currency other than the CFA franc.

II. Quantitative Performance Criteria

3. Quantitative performance criteria are proposed for June and December 2011 for the overall deficit (commitment basis, including grants) as defined in paragraph 4; contracting or guaranteeing of nonconcessional and short-term external debt as specified below in this paragraph; and accumulation of external arrears. Programmed amounts for March and September 2011 are benchmarks. The following performance criteria will be
monitored on a continuous basis: (i) the contracting or guaranteeing of new nonconcessional external debt by the government, public enterprises and other official sector entities unless excluded in Tables 1 of the Memorandum of Economic and Financial Policies (MEFP), as well as private debt for which official guarantees have been extended and which, therefore constitute a contingent liability of the government; (ii) the contracting or guaranteeing of new short-term external debt; and (iii) the accumulation of arrears on the external debt service of the government.

A. Overall Deficit Including Grants

Definition

4. For the program, the overall deficit including grants is valued on a commitment basis *(base engagement)*. It is the sum of foreign and domestic financing (net) of the government measured from the financing side plus cash basis adjustment. Net foreign financing is the sum of foreign borrowing minus amortization. Net domestic financing is the sum of (i) net bank credit to the government, including both net bank credit to the treasury as defined below and other government claims on and debts to national banking institutions; (ii) unredeemed government bills and bonds held outside national commercial banks; and (iii) privatization receipts. Net bank credit to the treasury is the balance of the treasury’s claims and debts vis-à-vis national banking institutions. Treasury claims include the cash holdings of the Burkinabé Treasury, deposits with the central bank, deposits with commercial banks, secured obligations, and government deposits with the postal system (CCP). Treasury debt to the banking system includes funding from the central bank (including statutory advances, consolidated advances, IMF financing, and refinancing of secured obligations), government securities held by the central bank, funding from commercial banks (including government securities held by commercial banks), and CNE (*Caisse Nationale d’Épargne Postale*)/CCP securitized deposits. Net bank credit to the government is calculated by the Central Bank of West African States (BCEAO), whose figures are recognized as valid for program purposes. The stock of treasury bills and other government debt, as well as net foreign financing, is calculated by the Ministry of Finance. Cash basis adjustment is the sum of (i) expenditure commitments not paid (*engagées nonpayées*); and (ii) change in treasury deposits.

5. All these items are valued according to the statement of government budgetary execution established monthly in the central government’s financial operations table. This is prepared by the Permanent Secretariat for the Monitoring of Financial Policies and Programs (SP-PPF), in collaboration with the other departments of the Ministry of Economy and Finance.
Adjustment

6. The overall deficit including grants is adjusted upward by the amount that grants fall short of what is programmed up to a maximum of CFAF 25 billion (see the MEFP Table 1). It will not be adjusted if grants are higher than programmed.

7. The overall deficit including grants will also be adjusted upward by the amount that concessional loans exceed what is programmed up to a maximum of CFAF 15 billion (see the MEFP Table 1).

Reporting deadlines

8. The Ministry of Economy and Finance will forward data to the IMF on the overall deficit excluding grants within six weeks after the end of each quarter.

B. Nonaccumulation of External Arrears

Performance criterion

9. The government’s external debt is the stock of debt owed or guaranteed by the government. External arrears are external payments due but not paid on the due date. Under the program, the government undertakes not to accumulate arrears on its external debt, except those arising from government debt being renegotiated with creditors, including non-Paris Club bilateral creditors. Nonaccumulation of external arrears is a performance criterion, to be observed continuously.

Reporting deadlines

10. Data on outstanding balances, accumulation, and repayment of external arrears will be forwarded within six weeks after the end of each month.

C. Nonconcessional External Debt Contracted or Guaranteed by the Government

Performance criterion

11. The government undertakes not to contract or guarantee any external debt maturing in one year or more that has a grant element of less than 35 percent (calculated using the interest reference rate for borrowed foreign currencies provided by the IMF) beyond the ceiling indicated in the MEFP (Table 1). This performance criterion applies not only to debt as defined in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009, but also to commitments contracted or guaranteed (including lease-purchase contracts) for which no value have been received. This criterion also applies to the guaranteeing of private sector debt by the government, which consequently
constitutes a contingent liability of the government, as defined in section I of this memorandum. In addition, this criterion applies to public enterprises and other official entities unless excluded in the MEFP (Table 1). External debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. This performance criterion is to be observed continuously.

**Reporting deadlines**

12. Details on any loan (terms and creditors) to the government or guaranteed by the government must be reported within four weeks of the end of each month. The same requirement applies to guarantees granted by the government.

**D. Government Short-Term External Debt**

13. The definitions in paragraph 11 also apply to this performance criterion. Short-term external debt is debt with a contractual term of less than one year. Import- and export-related loans, Treasury bills issued in CFA francs on the WAEMU regional market, normal short-term supplier credits, and debt relief operations are not covered by this performance criterion.

**Performance criterion**

14. In the context of the program, the government undertakes not to contract or guarantee short-term nonconcessional external debt. The definition of nonconcessional in paragraph 3b applies here. The government also undertakes not to contract or guarantee any short-term external debt without having first determined its concessionality with IMF staff. This performance criterion is to be observed continuously. As of September 30, 2010, the government of Burkina Faso had no short-term external debt.

**III. OTHER QUANTITATIVE INDICATIVE TARGETS**

15. The program also includes indicative targets on total government revenue, poverty-reducing social expenditures, accumulation of domestic payment arrears, and large taxpayer nonfiler rates.

**A. Total Government Revenue**

**Definition**

16. Total government revenue is valued on a cash basis. It includes all tax and nontax revenue collected by the Directorate General of Taxation, the Directorate General of Customs, the Burkinabè Treasury, and revenue collection units at ministries and institutions. It also includes revenue from treasury checks.
Reporting deadlines

17. Details on total revenue will be sent to IMF staff by the SP-PPF of the Ministry of Finance and Budget within six weeks after the end of each month.

B. Poverty-Reducing Social Expenditures

Definition

18. Poverty-reducing social expenditures are defined by the PRSP priority sector programs designed to accelerate the reduction of poverty. They cover all spending categories for the following ministries: Primary Education and Literacy; Health; Social Action and National Solidarity; Promotion of Women; Labor and Social Security; Employment and Youth; Agriculture, Water and Fishing Resources; Animal Resources; and Environment and Living Conditions. They also cover rural roads and HIPC resources (Category 5) for infrastructure spending and HIPC expenditures only for the Justice Ministry and the Ministry of Economy and Development. These expenditures are monitored directly through the budget.

Reporting deadlines

19. The government will report within six weeks after the end of each month the monthly data on poverty-reducing social expenditures.

C. Nonaccumulation of Domestic Payment Arrears

Definition

20. The government will not accumulate any arrears on domestic government obligations during the program period. This is a benchmark to be observed continuously.

Reporting deadlines

21. Data on balances, accumulation, and repayment of arrears on domestic government obligations will be reported within four weeks after the end of each month.

D. Large Taxpayer Nonfiler Rate

Definition

22. The large taxpayer nonfiler rate is the ratio of late and nonfilers in the Large Taxpayer Office (LTO) relative to the total number of taxpayers obligated to file in LTO. A late filer is anyone who files a tax return after the deadline. A nonfiler is anyone in the database who did not file taxes. The main tax categories are the VAT (TVA), the corporate income tax (BIC), and the tax on wage income (IUTS). Filing deadlines for the
main tax categories are set in the tax code.

**Reporting deadlines**

23. The government will report within two weeks after the end of each quarter the total number of late and nonfilers as well as the total number of taxpayers obligated to file in LTO for the main tax categories.

**IV. STRUCTURAL BENCHMARKS**

24. The program incorporates structural benchmarks (see the MEFP Table 2).

**V. ADDITIONAL PROGRAM MONITORING INFORMATION**

**A. Public Finance**

25. The government will report the following to Fund staff:

- The monthly government flow-of-funds table (TOFE) and the customary appendix tables, to be forwarded within six weeks after the end of each month; if data on actual investment financed by external grants and loans are not available in time, a linear implementation estimate based on the annual projections will be used;

- Complete monthly data on domestic budgetary financing (net bank credit to the government and stock of unredeemed treasury bonds and bills), to be provided within six weeks after the end of each month;

- Quarterly data on implementation of the public investment program, including details on financing sources, to be sent within six weeks after the end of each quarter;

- Quarterly data on external debt stock, external debt service, signing of external loans, and disbursements of external loans, to be sent within six weeks after the end of each quarter;

- Monthly data in the table on the monitoring of poverty-reducing expenditures that will be submitted with the same transmission delay as for the above-defined TOFE table;

- Monthly data on prices and taxation of petroleum products, including
(i) prices prevailing during the month; (ii) detailed calculation of the price structure, from the f.o.b.-MED price to the retail price; (iii) volumes purchased and made available for consumption by the petroleum distributor (SONABHY); and (iv) a breakdown of receipts from the taxation of petroleum products—customs duties, tax on petroleum products (TPP), and value-added tax (VAT)—and of subsidies, to be provided within four weeks after the end of each month;

- A monthly statement of the status of accounts with the treasury, classified by major category (administrative services, state enterprises, mixed enterprises, public administrative enterprises, international organizations, private depositors, and others), to be provided within six weeks after the end of each month;

- Quarterly data for the large taxpayer office on (for TVA, BIC, IUTS) the numbers of: register taxpayers, statements received, and reminder letters sent to late and non filers; and

- These quarterly statistics are to be provided within two weeks after the end of each quarter. Similarly, quarterly data on the following are to be sent within two weeks of the end of the quarter: total number of customs statements, number of statements selected by channel, and number of statements by channel subject to non-standard treatment.

**B. Monetary Sector**

26. The government will provide the following information within six weeks after the end of each month:

- The consolidated balance sheet of monetary institutions;

- Provisional data on the monetary survey provided six weeks after the end of each month (with final data provided ten weeks after the end of each month);

- Borrowing and lending interest rates; and

- Customary banking supervision indicators for bank and nonbank financial institutions, if necessary.

**C. Balance of Payments**

27. The government will report the following to Fund staff:

- Any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur;
• Foreign trade statistics compiled by the National Statistics Institute, within three months after the end of the month concerned; and

• Preliminary annual balance of payments data within nine months after the end of the year concerned.

**D. Real Sector**

28. The government will report the following to Fund staff:

• Disaggregated monthly consumer price indices, within two weeks after the end of each month;

• Provisional national accounts; and

• Any revision of the national accounts.

**E. Structural Reforms and Other Data**

29. The government will also report the following:

• Any study or official report on Burkina Faso’s economy, within two weeks after its publication and

• Any decision, order, law, decree, ordinance, or circular that has economic or financial implications as soon as it is published or at the latest when it enters into force.